# NOTES

## WASHINGTON NOTES

The Final Rate Hearings
A Year of the Corporation Tax
The Borrowing Power of the Government
The Immigration Report
President Taft's Message
Banking and Bank Control

Rate hearings before the Interstate Commerce Commission during the latter part of November have been the most noteworthy of the recent series of noteworthy hearings on the general question of railroad charges. The feature of these sessions (the last preceding the legal argument which is to open on January 9) has been the discussion of the business and financial status of the roads. At these meetings the argument of the shippers proved to consist of two main elements: (1) that the roads are not now conducted upon an efficient and economical business basis as compared with the larger industrial establishments of the country, and (2) that none the less the financial condition of the roads is such that they are not in need of the rate advance to enable them to maintain interest charges and dividends on stocks. The roads have urged before the commission that, due to large advances in wages forced upon them by public opinion, by increasing costs of living, and by the active intervention of the federal government, they could not continue the maintenance of dividends and interest without higher freight rates—a claim which the shippers now set themselves to meet in the way already indicated. The first element in the shippers' argument—that of the possibility of saving in the business management of the roads—was made to depend upon evidence introduced to show that business firms have in the past, by the application of scientific methods of management and by effective work, succeeded in economizing to an enormous extent upon their expenses, and at the same time have been able immensely to increase their output, the inference being that the roads could do likewise. Weakness was apparent in the character of the support afforded to this inference. While shippers had little trouble in showing that large sums had been saved by industrial and com-

mercial concerns through scientific management, they did not establish either (1) that the railroad business was susceptible of similar economies, or (2) that the roads had not introduced such economies wherever they were possible. In fact, it was admitted at various points in the discussion that some of the roads undoubtedly had used the improved methods of organization in their shops. As to the second main element in the argument—the present financial conditions of the roads, the showing of the shippers was undoubtedly impressive. Dividing the roads first of all into two classes—those that had been carefully built and honestly financed, and those that had been neither, they succeeded in extorting from the presidents of the various lines who were placed on the witness stand the admission that, if there had been waste in the building of a road, or dishonesty or extravagance in financing it, it was not entitled to dividends on the full face value of its outstanding securities. By actual description of the various stock issues of the several roads, the shippers had little difficulty in showing that, among those running through eastern classification territory, all which had been reasonably well managed and financed are already yielding handsome returns and that it is only the so-called "weak roads," such as the Erie and others of like kind, that are unable to pay dividends. Even in the case of the latter, it was shown, there has been a decided improvement in condition during recent years in consequence of the reinvestment of money drawn from earnings, so that managers may expect at some time in the future to reach a dividend basis. The showing of the shippers was more effective in this direction than in any other, and the attitude of the Interstate Commerce Commission has indicated that members of that body have been strongly impressed with the character of the argument offered. Meanwhile, the reports of the hearings, including as they do the testimony of some of the most important railroad officers in the country, constitute one of the most valuable sources of information about railroad financial conditions thus far made accessible.

The report of the commissioner of internal revenue regarding the operations of the corporation tax for the first fiscal year during which it had been in operation throws the first real light upon the working of the tax as well as upon the organization of the corporations of the country (*Report of Commissioner of Internal Reve-*

*nue,* 1910). In some respects the showing made is not altogether satisfactory. According to the figures now made public the total returns from the tax were $26,872,270, while the total net income of all corporations reporting was $3,125,481,101. The total capitalization of the corporations is reported, following their returns to the government, as $52,371,626,752, with a bonded indebtedness of $31,333,952,696. It should be recalled in studying the figures that the net incomes reported do not necessarily represent a sum applicable solely to the payment of dividends, since the act in question allowed the deduction of interest on bonds in computing net incomes only to an amount not exceeding the capitalization of the corporation. In many cases, no doubt, the bonds outstanding were in excess of such capitalization, so that the sum represented as net income must in part be applied to the payment of bond interest. How far this is the case it is impossible, on the basis of the figures given, to say with accuracy. It is clear, however, that, even if the whole of the reported net income were applicable to the payment of dividends on stocks, it would be an exceedingly small return as compared with the total capitalization. This situation seems more striking when the returns are studied by classes under the several heads which have been adopted for making the grouping. These heads were five in number and included financial and commercial corporations which return a capitalization of $2,723,954,539 and a net income of $394,747,699; public-service corporations which report a capitalization of $18,902,060,130 and a net income of $808,960,651; industrial and manufacturing corporations which report a capitalization of $21,585,890,484 and a net income of $1,325,807,156; mercantile corporations which report a capitalization of $2,971,064,458 and a net income of $359,754,516; and miscellaneous corporations which report $6,088,657,140 total capitalization and $236,211,677 net income. It is noticeable that the rate of net returns on corporate capitalization varies rather widely, especially in the detailed figures for different classes of concerns—a situation of singular interest if it correctly represents the real facts in the case. The truth is that many are now firmly convinced that these returns indicate little with reference to the real condition of the corporations and that, as a result of careful arrangement of bookkeeping systems or even of actual evasions of one sort or another, the income reports are largely untrustworthy. Just at the time when the returns themselves are thus made public, President

Taft has issued an executive order (Treasury Decisions No. 1665) in which he lays down the conditions under which access may be had to the corporation-tax returns. Under this order the returns may be inspected only by officers and employees of the treasury department and by bona-fide stockholders of the corporations, except when the stock of the corporations is actually listed upon stock exchanges or is offered to the public for sale by the corporation itself. Even in the latter case (and of course in all other cases) the returns can be seen only upon written permission granted by the Secretary of the Treasury after due application accompanied by evidence that the person making the application is what he represents himself to be and has the right claimed in his application to inspect the returns of the corporation in which he professes to be interested.

Secretary McVeagh has made some careful studies of the borrowing power of the several countries of the world with a view to determining the capacity of the government of the United States in this respect. He finds that it is probable that the borrowing power of our government is not far from 3 per cent, this conclusion being arrived at by comparison of the selling, quoted, and realized prices of various government securities and the rate of actual return yielded by each. The inquiry was considered necessary because of the failure in the past to dissociate the value given to our bonds by their interest yield from the value acquired by them as a basis for bank circulation and as a necessary prerequisite to the organization of a national institution. It is Mr. McVeagh's view that the department should be given the powers needed by it in the effort to separate new issues of bonds from the bank circulation. He desires that this be done not only because of the present redundancy of the bank currency but also because of the probability that any new issue of the bonds on the old terms would tend to depress the price of the outstanding securities still further. An examination of the investment value of the bonds indicates that the rate of interest which the government must pay in order to get money is considerably higher than has been supposed. As the Secretary now estimates, it is not far from 3 per cent. The following table summarizes work done at the treasury in comparing the borrowing power of the United States with that of other nations:

| Kind of Bonds | Percentage | Average Annual Price, 1909 | Present Market Price | Average Annual Price, 1909, Reduced to a 3 Per cent Basis | Present Market Price Reduced to a 3 Per cent Basis | Real Interest Earned at 1909 Average Market Price | Real Interest Earned at Present Market Price |
|---|---|---|---|---|---|---|---|
| | | | | | | Per cent | |
| English Consols.. | $2\frac{1}{2}$ | 83.76 | 79.00 | 100.52 | 94.94 | 2.98 | 3.16 |
| French Rentes... | 3 | 97.20 | $97.97\frac{1}{2}$ | 97.20 | 98.04 | 3.09 | 3.06 |
| German Imperial Loan.......... | $3\frac{1}{2}$ | 95.11 | 92.00 | 81.52 | 78.12 | 3.68 | 3.84 |
| | 3 | 84.71 | 83.00 | 84.71 | 83.18 | 3.54 | 3.61 |
| U. S. Debt...... | 4 | 119.11 | $115\frac{1}{4}$ | 106.17 | 103.53 | 2.52 | 2.70 |
| | 2 | 101.47 | $100\frac{3}{4}$ | 118.45 | 116.72 | 1.92 | 1.96 |
| | 3 | 101.75 | $100\frac{3}{4}$ | 101.75 | 100.75 | .... | .... |
| Panama........ | 2 (1936) | .... | $101\frac{1}{2}$ | .... | 120.27 | .... | 1.98 |

In completing its report and formally submitting it to Congress on December 5, the United States Immigration Commission has made public a mass of material on all phases of the immigration question probably never before equaled in amount or scope in any country of the world. The report, when published, will make, in all, some 40 volumes of about 700 pages each—this in spite of the fact that much of the commission's material is still incomplete and will probably never be reduced to any definite form, while much was destroyed as unsuitable after being prepared for publication. Of the work which is now ready to be laid before the public it is likely that that which will prove of greatest value is found in the volumes devoted to industrial matters. In these volumes some 23 industries have been examined with a view to ascertaining the extent to which they have been affected by the influx of immigrant labor, while numerous other industries of minor significance have also been more or less carefully studied. In other portions of the report, the condition of immigrants in agriculture is considered, and attention is given to the educational progress and status of children of immigrants. A "dictionary of races" explaining the general origin and numerical importance of the various race groups, historical reviews of the conditions abroad which have led to immigration, studies of the history of immigration and steamship legislation in the United States, and special studies of various races and their position in the development of the country fill up the list. It is interesting that practically all the commission's conclusions are strongly in favor of a rather rigid exclusion policy, tending to limit the number of foreigners entering the country. Some differ-

ence of opinion is shown with reference to the question how a limitation should be effected, whether by an educational test or by actual limitation of numbers. The view is strongly intimated that the increase in the number of immigrants has tended to keep down wages and to prevent the raising of general standards of living—very mild conclusions considering the character of the data developed in the report itself.

President Taft's message to Congress (December 6, 1910), although one of the longest of such documents ever submitted, is regarded as a decidedly colorless document. Its chief significance from an economic standpoint is found in the guarded character of the attitude which is adopted therein as contrasted with the position accepted in the message of a year ago. The President now recommends that the anti-trust legislation and in the main the railroad-rate legislation of the country be permitted to rest in its present condition for a time in order that the effect of more rigid enforcement of the laws may be ascertained, and while he renews his suggestion of last year that a federal incorporation law be enacted, the suggestion is evidently only made pro forma. President Taft has now definitely accepted the plan of a permanent tariff commission or board and recommends it in his message. He has progressed very far from the state of mind indicated in his Winona speech of September, 1909, in which he spoke of the present tariff as the best ever passed. He now feels that the duties need revision and in many cases reduction. The recommendations of the President in favor of a ship-subsidy scheme are the same that he has made in the past, although they are now renewed with greater positiveness in view of the passing of the Republican majority in the House of Representatives. A physical valuation for railroad operating properties is a step in the direction of "radicalism" which the President has hitherto avoided but to which he now commits himself. All in all, the message, on these as well as on other points, represents a decided change from the point of view of a year ago and is indicative of the instinctive alteration which is coming over the face of things in national administration.

Comptroller of the Currency Murray's annual report to Congress concerning the status of the national banking system is likely to receive considerably more than passing attention. The report

marked a distinct step forward in the control of national banking from Washington, and at the same time affords information concerning important measures designed to change the basis of note issue. Under the latter head must be placed the actual organization, now formally announced by the Comptroller, of national currency associations in several parts of the country thus completing the machinery necessary to the control of emergency note issues should conditions at any time warrant or demand such a step under the onerous terms laid down in the Aldrich-Vreeland law. By way of better control, the report notes important progress in co-operation with state bank supervisors designed to prevent the entry of weak or dishonest institutions into state and national systems, the establishment of a much more stringent system of oversight of reserve agents (those banks being rejected as agents which do not conform to the requirements of the national act), the abolition of the custom whereby officers and employees of national institutions performed much of the essential work of bank examination, and various other changes. Despite this decided forward movement in bank control the comptroller's figures relating to general conditions none the less show the inadequacy of the present system of reserves and of currency and seem to indicate that conditions are gradually working toward another period of inflation and over-issue such as preceded the panic of 1907. True, the banks during the past summer showed a material power of recovery and of self-protection but there are evidently limits to what can be done by the wiser bankers of the community toward toning up conditions throughout the system. These are far too largely dependent upon the will of the multitudinous smaller institutions to permit of their being easily supervised by the Comptroller or controlled by the conservative action of the stronger bankers of the country.